**Ellora Derenoncourt**
**The racial wealth gap, 1850-2020**
**Fluxx Request ID: R-2011-29464**

**Reviewer:**

*1. Does the project address an important and compelling question or set of questions? Is the question(s) framed appropriately in terms of prior theory and empirical work?*

The PIs propose to document the gap between Black and white Americans in per capita wealth between 1860 and 2020. As the PIs note, this descriptive, historical information does not yet exist. The preliminary evidence presented in the proposal shows just how slow (or nonexistent) convergence has been. The PIs also conduct a variety of simulations to show the trend in the racial wealth gap under alternative counterfactual scenarios. Their preliminary results help highlight the substantial barriers to meaningful further convergence without substantial policy intervention. As I read the proposal, two things came to mind as potential areas for exploration once the PIs complete the data work and are ready to focus on their substantive analyses. First, I wondered what role, if any, trends in aggregate wealth inequality play in trends in the racial gap in wealth. The PIs might use their same counterfactual simulation approach to engage this question. Second, while it is very appropriate for the PIs to ground their analyses in the economics framework and literature, as the project develops, they may also find it valuable to consult the literature in history and sociology on racial inequality, wealth inequality, and key historical policies and turning points. This scholarship is not reflected in the proposal and engaging it may both strengthen the project and give it a wider audience.

*2. Is the research design, the data and the proposed methodology appropriate to address the questions raised?*

There are inevitably many assumptions involved in constructing historical wealth estimates from the available data. Capitalized income is not wealth, property taxes are not wealth, and so on. This is certainly not the PIs’ fault, but transparency about the data quality, the assumptions made, and the limitations in coverage of wealth types and population groups will be extremely important, as will, when possible, assessment of the sensitivity of the estimates to alternative assumptions. This is not a criticism of the proposal, as I appreciate the PIs’ description of these challenges in even the limited space of the proposal. Given the long historical period, changes in the form in which wealth is held may also matter. For example, the PIs propose to exclude social security and defined benefit pension claims, which is conventional, but there has been substantial change since 1860 in the prevalence of these claims to future income streams. I would like to hear more about the PIs’ plan to explore the consequences of this exclusion for their conclusions. This may be my oversight, but in the wealth accumulation equation (Equation 1), I was uncertain how non-labor income (including, importantly, gifts and inheritances) entered the model.

*3. Do the qualifications of the investigator(s) suggest the capacity to carry out the project? Is additional expertise required?*

The team is qualified, with complementary skills and research areas. As noted above, they may find it helpful to consult with non-economists studying related topics or to convene an advisory board.

*4. What is the likely contribution of this project?*

An important contribution of the project is the construction of the historical data series, which will be a public good. These data will allow the PIs to conduct simulations that help us think about what can (and cannot) meaningfully narrow the racial wealth gap.

**Investigator Response**
Please respond to the reviewer in this space.

We thank the reviewer for helpful comments and excellent suggestions.

We believe the relationship between aggregate wealth inequality and the racial wealth gap is an important one. According to Kuhn, Schularick, and Steins (2020), wealth inequality in the US has slightly increased since the 1970s-1980s, which is quite in line with our racial wealth gap trend. Since Black households are more concentrated in the lower 50-90% of the wealth/income distribution, it’s very probable that trends in aggregate wealth inequality and racial inequality are linked. We are optimistic that we’ll be able to study this question in detail in our harmonized Survey of Consumer Finances data and to examine this in our counterfactual simulations as well. We also made the discovery recently that it will be possible in the tax records we use to determine the number of Black and white with positive wealth, as it is also possible to do in Census. This opens up a much longer timeframe over which we can evaluate aspects of the wealth distribution by racial group, the forces that shape these distributions, and their relationship with overall racial wealth differences.

On engaging with work on the wealth gap in other disciplines, we agree with the reviewer that this will deeply enrich our project. We plan to thoroughly survey the rich historical and sociological literature on this topic. We have already found that scholarship by early 20th century sociologists Du Bois and Work provides invaluable early measurement of Black wealth and wealth inequality. Studies by Schweninger, Gatewood, Berlin, and others are further helping us understand antebellum and postbellum Black wealth patterns in both the North and the South. Recent sociological work on this question has also proven extremely useful, including but not limited to, the work of Pfeffer, Killewald, and others. We very much hope that our project will have an audience in and benefit from exchange with other disciplines.

We agree with the reviewer that this work will need a detailed discussion of the construction of the data series and the assumptions involved. We plan to have a detailed discussion of the construction of the data series in the final paper that will also allow other researchers to exactly see what assumptions have been made. We will complement this discussion with sensitivity and robustness analyses and bounds on our measures of the wealth gap for different historical periods. Wherever possible, we plan to provide corroborating evidence from multiple data sources to support our estimates. On social security and defined benefit pension claims, it’s true that implicit or explicit government promises to future income are notoriously hard to estimate. Even for the contemporary period, scholars disagree on the value of pension claims against the social security system as this will also depend on many hard to assess secular changes. We therefore plan to focus primarily on marketable wealth as in most of the literature on wealth inequality. One argument for looking at marketable wealth is sociological: that wealth can provide access to power and policymaking and this in turn is likely an important additional factor in the slow convergence of the racial wealth gap. We will include a discussion of these issues in future drafts of the paper.

Regarding the treatment of non-labor income (social transfer, inheritance etc.), currently we focus on labor income only. For the 19th century, we use farm labor income estimates from Margo (2016). For the long-run simulation (1870-2019), we do need to assume that other non-labor income was small in 1870. We plan to investigate the plausibility of this assumption by reading the literature on late 19th and early 20th century income gaps between Black and white Americans as well as the growing literature seeking to improve income measurement in this historical period (see, e.g., Ager, Boustan, and Eriksson (2019) and Saavedra and Twinam (2020). For our simulation exercises covering 1950-2200 (with counterfactual analyses for the future period), this is not an issue thanks to our ability to observe income from all sources in the SCF. Finally, we appreciate the reviewer’s comment regarding inheritances. We are definitely planning to address intergenerational wealth transmission in our model. One question would be whether we include this as wealth or as income. The SCF includes questions whether they received inheritance in form of assets, so we could use this information. It may not be possible to get this data for the pre-WWII period, but we can certainly make progress on the post-WWII period.

The idea of convening an advisory board for our project is a great one! This is a large undertaking and the expert advice of scholars from different disciplines will ensure our final public-use database is as reliable and accurate as it can be.

References:

Ager, P., Boustan, L. P., & Eriksson, K. (2019). *The intergenerational effects of a large wealth shock: White southerners after the Civil War* (No. w25700). National Bureau of Economic Research.

Berlin, I. (1975). *Slaves Without Masters; the Free Negro in the Antebellum South*. Random House, Inc.

Du Bois, W. E. B. (Ed.). (1899). *The Negro in Business: Report of a Social Study Made Under the Direction of Atlanta University, Together with the Proceedings of the Fourth Conference for the Study of the Negro Problems, Held at Atlanta University, May 30-31, 1899* (No. 4). Atlanta University.

Du Bois, W. E. B. (1969). *The Black North in 1901: A Social Study*. Ayer Company Pub.

Gatewood, W. B. (1988). Aristocrats of Color: South and North The Black Elite, 1880-1920. *The Journal of Southern History*, *54*(1), 3-20.

Kuhn, M., Schularick, M., & Steins, U. I. (2017). Income and wealth inequality in america. *Journal of Political Economy*.

Pfeffer, F. T., & Killewald, A. (2019). Intergenerational wealth mobility and racial inequality. *Socius*, *5*, 2378023119831799.

Saavedra, M., & Twinam, T. (2020). A machine learning approach to improving occupational income scores. *Explorations in Economic History*, *75*, 101304.

Schweninger, L. (1989). Black-owned businesses in the South, 1790-1880. *The Business History Review*, 22-60.

Schweninger, L. (1990). *Black property owners in the South, 1790-1915* (Vol. 82). University of Illinois Press.

Work, M. N. (1922). *Negro Year Book and Annual Encyclopedia of the Negro.* Monroe N. Work.

**Reviewer:**

*1. Does the project address an important and compelling question or set of questions? Is the question(s) framed appropriately in terms of prior theory and empirical work?*

This is a bold and imaginative project which seeks to bring detailed micro-level data to the analysis of historical racial wealth gaps. We know very little about the racial wealth gap before the Civil Rights Era, and even less about the dimensions of the gap at the micro level. Outside of narratives about Black business districts and land lost to Black farmers, little about Black wealth is known directly. Building a harmonized data series on Black/White wealth from 1850 to 2020 would be a remarkable achievement. This project will certainly come as close as possible in using the existing archival records to construct a series based on the best available sources. There are two specific advantages to this project: (1) The use of the historical "SCF" data is quite unique. This is a novel data contribution that will help us answer a range of questions about wealth and the specific wealth holdings by race, extending our timeline backwards for aspects of wealth that we have wanted to have for some time. (2) The linking of the property records to the census will allow us to look at the role of property ownership and potentially policy in wealth gaps. For example, assessment ratios by race have been exposed as being disproportionate both historically (the work of Margo cited) and in more recent analysis. The good part here is that the linking is straightforward, giving us better confidence in the matches to be made. More generally, this is a descriptive project that will be of broad general interest outside of the policy community. I can easily see this work cited widely in the media, by politicians, and by those active in the reparations movement. This will only be enhanced by doing the counterfactual analysis to look at what wealth trajectories would look like with different policies adopted. The reviewers have responded to the previous reviewers where the reasons for analysis of wealth is required and for some of the assumptions (such as banks) are better spelled out. The project is straightforward and descriptive, and what it will provide the public as a solid empirical grounding of the role of policy in racial wealth trajectories would be quite important.

*2. Is the research design, the data and the proposed methodology appropriate to address the questions raised?*

Yes. This is a very novel project which will combine linked data to wealth sources. The innovations here are primarily twofold: (1) the use of the historical SCF and Census of business data to estimate the range of Black business ownership and asset ownership and (2) linking to property records which will allow for analysis of property wealth. I would encourage the authors to delve deeper into the historical wealth information of those such as Loren Schweninger, since some of the wealth captured at the start of the period would be due to policies during the antebellum era.

*3. Do the qualifications of the investigator(s) suggest the capacity to carry out the project? Is additional expertise required?*

Yes. This team comprises an ideal collection of strengths to execute the work.

*4. What is the likely contribution of this project?*

The contribution of this project will be the first national series of Black wealth trajectories over time. This will be of high importance. It will be covered by the media, and it will factor into policy debates about reparations and the causes of racial/wealth trajectories.

**Investigator Response**
Please respond to the reviewer in this space.

We thank the reviewer for the very encouraging feedback and comments. The reviewer’s suggestion to delve deeper into Schweninger’s work is very much appreciated. We are looking closely at Schweninger’s work now as well as Du Bois’s study of Black economic status in Philadelphia and New York. These qualitative and mixed method historical and sociological sources are helping us enrich our study of 19th and early 20th century patterns in the Black wealth and the racial wealth gap. We are hopeful that we can fill in some further data points with the aid of these sources.

References:

Du Bois, W. E. B. (1899). *The Philadelphia negro: A social study* (No. 14). University of Pennsylvania Press.

Du Bois, W. E. B. (1969). *The Black North in 1901: A Social Study*. Ayer Company Pub.

Schweninger, L. (1989). Black-owned businesses in the South, 1790-1880. *The Business History Review*, 22-60.

Schweninger, L. (1990). *Black property owners in the South, 1790-1915* (Vol. 82). University of Illinois Press.

**Reviewer:**

*1. Does the project address an important and compelling question or set of questions? Is the question(s) framed appropriately in terms of prior theory and empirical work?*

This is a very ambitious, topical, and promising project. The authors propose to fill a central data gap – a long-run series of the Black/white wealth gap – through a variety of data collection and imputation strategies. The counterfactual historical simulations they use to illustrate the limits of equalizing the rates of wealth returns (and similar components included in their theoretical model) and the promise of a reparations program are powerful and, I believe, will help shape the national conversation on policy interventions to address the Black/white wealth gap.

*2. Is the research design, the data and the proposed methodology appropriate to address the questions raised?*

The data gathering already executed and proposed here are commendable and hold real potential to substantially expand the social scientific data infrastructure. Necessarily, this data construction and imputation work entails a variety of assumptions. The impact of this project could be even stronger if the authors also engaged in analyses that demonstrated the sensitivity of their main estimates (of wealth levels and trends) towards different assumptions. That is, the authors could bound their estimates based on a range of alternative assumptions (e.g. about missingness, rates of returns, etc.). The raging debate on Saez/Zucman’s estimates of wealth concentration may serve as a good guideline for the authors to anticipate some criticisms of particular assumptions and demonstrate just how much influence they have on the main estimates (of trends and levels).

*3. Do the qualifications of the investigator(s) suggest the capacity to carry out the project? Is additional expertise required?*

The investigators are highly qualified to carry out this project. The presence of a scholar with expertise in historical economics (Dr. Derenoncourt) is particularly crucial.

*4. What is the likely contribution of this project?*

The long-run trends in racial wealth gaps and counterfactual historical simulations, both already reported in the proposal, will shape the policy conversation around reparations, baby bonds, and other proposals that are currently gaining traction. Importantly, the proposal to release the data as soon as possible will ensure that the broader social scientific community can engage in studies of the long-term determinants of today’s racial wealth gaps.

*5. Do you have any additional comments or suggestions for the investigators to consider (theory, data, methods) that could potentially improve the project?*

The proposed model seems to imply an assumption of perfect intergenerational transmission (all wealth being fully transmitted across generations). While the authors may not have the data to estimate racial inequality in intergenerational wealth transmission across the full-time span, they may still consider expanding their model with an intergenerational transmission parameter to assess how racial differences in intergenerational transmission (e.g. Pfeffer and Killewald 2019) may influence the long-term dynamics and future racial wealth gaps.

*6. Full citations of articles referred to in your review (if applicable).*

Pfeffer, Fabian T., and Alexandra Killewald. 2019. “Intergenerational Wealth Mobility and Racial Inequality.” Socius: Sociological Research for a Dynamic World 5:1–2.

**Investigator Response**
Please respond to the reviewer in this space.

We thank the reviewer for the comments and suggestions. We plan to provide a detailed discussion of the assumptions and adjustments that were necessary to construct our benchmark estimate of the racial wealth gap. We also plan to provide detailed sensitivity analyses regarding these assumptions and to address concerns regarding the historical data. For example, some of our historical data are drawn from tax records, and there is evidence of an assessment bias for tax purposes such that Black property holders pay more in taxes for the same effective wealth holdings as white property holders (Avenancio-Leon and Howard, 2019). We can use the best available estimates of these types of biases to create bounds for our historical wealth gap measures.

The question of intergenerational transmission is an important one. The reviewer is right that our current simulation is based on a perfectly dynastic framework where wealth is smoothly transmitted across generations. We plan to explore how changing this assumption and introducing frictions in intergenerational transmission of Black wealth, in particular, will affect the dynamics of the racial wealth gap. We thank the reviewer for the comment and reference.

References:

Avenancio-León, C., & Howard, T. (2019). The assessment gap: Racial inequalities in property taxation. *Working Paper*.

**Reviewer:**

*1. Does the project address an important and compelling question or set of questions? Is the question(s) framed appropriately in terms of prior theory and empirical work?*

Absolutely. The full-length proposal makes clear just how mature and well-conceived this project is.

*2. Is the research design, the data and the proposed methodology appropriate to address the questions raised?*

Yes.

*3. Do the qualifications of the investigator(s) suggest the capacity to carry out the project? Is additional expertise required?*

Yes.

*4. What is the likely contribution of this project?*

This will be an extraordinarily influential project. The PIs will be adding data and knowledge where none exist on an extremely important economic question.

**Investigator Response**
Please respond to the reviewer in this space.

We thank the reviewer for the very encouraging feedback and comments.

**Reviewer:**

*1. Does the project address an important and compelling question or set of questions? Is the question(s) framed appropriately in terms of prior theory and empirical work?*

This is an excellent and straightforward proposal. The data collection will be hard but the results will be very important.

*2. Is the research design, the data and the proposed methodology appropriate to address the questions raised?*

Yes -- I suggest also using the Agricultural Census which should contain information on land wealth.

*3. Do the qualifications of the investigator(s) suggest the capacity to carry out the project? Is additional expertise required?*

Yes.

*4. What is the likely contribution of this project?*

The evolution of wealth inequality by race is poorly understood. This project will help fill important gaps.

**Investigator Response**
Please respond to the reviewer in this space.

We thank the reviewer for these comments. We are now incorporating information on land wealth from the Census of Agriculture to enhance our estimates of wealth for each racial group between 1900 and 1940, when breakdowns by racial group were available in the Ag Census.

**Reviewer:**

*1. Does the project address an important and compelling question or set of questions? Is the question(s) framed appropriately in terms of prior theory and empirical work?*

Yes. the project addresses an important and compelling question, namely the evolution of the racial wealth gap. Yes, the question is appropriately framed in light of prior work.

*2. Is the research design, the data and the proposed methodology appropriate to address the questions raised?*

Yes, this is an R & R. The co-PIs have responded adequately to reviewer comments in the previous round.

*3. Do the qualifications of the investigator(s) suggest the capacity to carry out the project? Is additional expertise required?*

Yes, the co-PIs are all well qualified to carry out the proposed research. No additional expertise is needed.

*4. What is the likely contribution of this project?*

The likely contribution will be one or more research articles published in economics and economic history journals (probably the latter).

**Investigator Response**
Please respond to the reviewer in this space.

We thank the reviewer for the encouraging feedback and comments.

**Reviewer:**

*Does the project address an important and compelling question or set of questions? Is the question(s) framed appropriately in terms of prior theory and empirical work?*

Yes. This is important work and builds on existing research in economic history. It will contribute a public good as well: better data that will help other researchers tackle this subject.

*Is the research design, the data and the proposed methodology appropriate to address the questions raised?*

Yes.

*Do the qualifications of the investigator(s) suggest the capacity to carry out the project? Is additional expertise required?*

The researchers are very strong and able to carry out the duties.

*What is the likely contribution of this project?*

(1) A comprehensive data set on racial differences in wealth accumulation over time.
(2) With these data, we gain a better understanding of how policies in history have affected Black wealth accumulation. This is relevant to policy proposals about reparations, but is also helpful in understanding other Black outcomes, such as health.

*Do you have any additional comments or suggestions for the investigators to consider (theory, data, methods) that could potentially improve the project?*

This is a terrific proposal. I encourage the PIs to reach out to Bob Margo as they work on this if they haven't already. He has great ideas and may have suggestions.

**Investigator Response**
Please respond to the reviewer in this space.

We thank the reviewer for their comments. Bob Margo has provided tremendous advice on the project thus far and we hope to call on his expertise again in the future!